Policy Adjustments to the Global Economic Environment

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PHILIPPINE EXPORTERS CONFEDERATION, INC.

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TABLE OF CONTENTS

I. Introduction

This paper aims to discuss policy adjustments and options for trade in goods and services, and investment in the context of the global economic environment. In order to do this, the paper gives a summary of three reports on "Policy Adjustments to Exploit Opportunities in WTO, APEC, and AFTA: Tradable Goods Sector" (Austria, 1998), "Policy Adjustments to APEC/WTO/ASEAN: Services Sector" (Avila, 1998), and "Policy Adjustments to the Global Economic Environment: Investments in the Philippines" (Alburo, 1998). In addition, the paper examines adjustments and options in the context of the current Asian financial and currency crisis aside from the medium to long-term scenarios.

The next section suggests a framework and gives a summary picture of the country's global economic commitments. This section argues that an integrative picture is essential in order to appreciate these commitments, which is of course analogous to the changes that have taken place in the global scenery.

A third section is devoted to describing an integrative environment in terms of actual and potential economic directions based on the results of the individual reports. The aim here is to see not only integration of behavior with respect to tradable goods, services and investment but also across these behaviors. This in effect is a summary of the major findings of the individual reports without attempting to provide the technical details of the studies themselves.

The fourth section describes the adjustment and policy options that confront the country in the light of the global economic environment and the Asian financial and currency crisis in terms of trade in goods and services and investment. The section also spells out the common trade policy issues that the government needs to grapple with, points out their threads with the concerns addressed in the paper, and indicates the options that are available.

A final section concludes.

The central thrust of the paper is that the reconfiguration of the global economic environment reflected in the Uruguay Round of Multilateral Trade Agreements is a recognition of the greater interdependence among various trade flows of goods, services and investment resources. It is not sufficient anymore to either compartmentalize these flows or see them as disjointed activities. In fact, even the institutional machineries that were utilized as support mechanisms before are neither sufficient in recognition of these interdependencies. Analogously, therefore, there has to be a greater recognition on the part of the individual trading countries that their trading activities be they in goods, services or capital are not independent but are in fact mutually interacting. Indeed, it is precisely the interdependence that has made the recent Round difficult to complete.

In the Philippines, the various commitments to global arrangements can not be viewed as disjointed events. All affect all trade activities even within the domestic boundaries. What is reassuring is that the country's participation in other sub-global arrangements is not in conflict with one another since the common denominator in all of them is the sustained liberalization through continuing reduction in trade barriers, adoption of common standards that promote more trade, and participation in international support mechanisms. The commitments however do not mean the country has lost its own policy independence. Although some degrees of freedom may be lost, there remain important options the country can choose from where it can still achieve sustainable industrial development and improved well being for the country.

II. Global and Sub-Global Commitments: Framework and Summary

Philippine international multilateral economic commitments are in several areas - globally through its accession to the Uruguay Round Agreement of the World Trade Organization (WTO) in 1994, its participation in the ASEAN Free Trade Area (AFTA) through the instruments of the Common Effective Preferential Tariff System (CEPT) in 1993, and in the various initiatives of the Asia-Pacific Economic Cooperation (APEC) since 1996. As a contracting party to WTO (and its predecessor GATT), the country abides by its rules and disciplines concerning international trade transactions. As a member of ASEAN, the country accedes to CEPT agreements. As a member of APEC, the country voluntarily participates in specific programs for further trade liberalization in the APEC region. Thus its WTO obligations are global while both APEC and ASEAN are sub-global.

Whatever commitments the Philippines has entered into within these arrangements are continuously reviewed and enhanced. For example, after acceding to the WTO in 1994, the 1996 Singapore Ministerial conference reviewed the progress of the Uruguay Round implementation and considered new issues[1]. The yearly ASEAN Economic Ministers and informal Summits have been venues for regularly following up the progress of ASEAN arrangements. The yearly APEC Ministerial Meetings and Informal Leaders Meetings also provide the forum for examining the pace and direction of APEC.

What is not often well appreciated is the broader frame for the Uruguay Round and the resulting new rules under WTO. First is the apparent incompleteness of the scope for rules and disciplines surrounding trade transactions when some products and sectors are not subject to the same rules. Though for years the GATT administered the Multi-Fibre Agreement (MFA), it was never within its disciplines. The MFA's phase-out, albeit in phases, is therefore an integration move[2]. Second, a major component in trade had also been outside of rules and disciplines. This involves the agricultural sector. The complex web of distortions has created artificial pockets of advantages in products, which would not otherwise appear if these have been subject to common rules. Subsidies given to agriculture have made countries acquire comparative advantage moving from be-

[1] See the Asian Development Bank (1997) for a brief account of the Singapore Ministerial meeting results and the pending issues (pp. 177-179).

[2] While there may be questions raised as to the importance and value of the phasing (out) of the MFA for developing countries, the point is that there is an agreed upon timetable for the completion of this phase out (irrespective of the fact that it may be backloaded for many countries).

ing importers to being exporters. The inclusion of agriculture within WTO rules, despite the complicated steps and processes as well as length of time is also an integration move. Third, the new agreement on trade in services (GATS) is a recognition that trade in services is becoming an important element of global commerce and therefore need to have global rules. GATS is similarly an integration move. Fourth, the strengthening or elimination of tested procedures of global trade (e.g., anti-dumping, safeguard measures) admits to inadequacy in the face of expanding trade and sophisticated international commerce. Fifth, the agreement to adhere to stronger enforcement of protection to R and D and related investments (TRIPS) indicates that unfettered trade may often and eventually diminish trade through reduced innovations and product investments. Greater integration among countries could reduce incentives for expanding technology without enforcement of protection. Sixth, the agreement to eliminate, over a period of time, measures that unduly restrict market signals to evolve (e.g., TRIMS) in products and sectors where trade is dominant, is a recognition also of intertwining markets. In all and without having to detail the Uruguay Round documents, an important and critical underlying rationale is really to keep rules and disciplines in pace with the magnitude of trade that has exploded since the last GATT Round and the greater integration among expanded trading nations.

In fact, the emergence of many sub-global groupings from among trading nations was clearly in recognition of the inability of rules and disciplines to catch up with global commerce, and of fear that no new rules would emerge from GATT negotiations. The formation of APEC with much the same objectives of closer integration is WTO-consistent. Of course it can be argued that it may have lost its rationale with the ratification of the Uruguay Round. Yet APEC's initiatives have been couched in terms of leading global liberalization by being a WTO-plus arrangement not only in terms of timetables but also in coverage. The Philippines, along with other APEC member economies, shares a commitment to a free and open trade and investment in the Asia-Pacific region in 2020. This is cumulatively manifested in the Bogor Declaration, the Osaka Agenda and the Manila Action Plan for APEC wherein specific liberalization goals were laid out for implementation. Indeed the agreement to carry out APEC's Early Voluntary Sectoral Liberalization (EVSL) Program is illustrative of a WTO-plus arrangement. And because APEC appears to be a microcosm of the WTO scenery, its emphasis both on trade facilitation, and economic and technical cooperation measures reflect a concern for capacity build-up among developing economy members to achieve parity in trade in addition to a longer timetable as set out in the WTO agreements[3]. In short, APEC includes a deliberately active development objective as being essential to the trading components. The agreement to begin with 15 product groups in the EVSL effectively accelerates the pace of global liberalization set out in WTO. The consideration of initially a non-binding investment code within APEC is an underlying recognition of the close relationship within the region between trade and investment flows.

The quick transition in the long-standing ASEAN group from half-hearted liberalization measures to AFTA is a semblance of keeping pace with rapid trade growth even within ASEAN members. The country's acceptance and subscription to the eventual free trade area with 0-5 percent tariff rates among members for all manufactured products, capital goods, and processed and unprocessed agricultural products is likewise WTO-consistent and promotes integration. A further deepening of the CEPT scheme continues to be an active agenda in ASEAN. Yet this is not all. For one, mutual efforts at common tariff nomenclature and harmonization increase the compatibility of trade information among members. For another, ASEAN has embarked on a GATS-plus framework for trade in services. Finally, the grouping has begun efforts at creating a common investment area through the ASEAN Investment Area (AIA) to increase foreign direct investment inflows into the region. These are not exhaustive of all other initiatives that ASEAN has carried out such as customs cooperation (e.g., training, automated systems), standards and conformity (e.g., mutual recognition agreements, accreditation), intellectual property cooperation (e.g., standardization of IP legislation, innovation promotion), and industrial cooperation (e.g., ASEAN Industrial Cooperation Scheme). The original timetable for AFTA had been moved by 5 years from 2008 to 2003 setting it ahead of many of the elements of the WTO agreed timetables.

[3] Actually, WTO does not have a development mandate or any recognition of direct capacity building other than the differential timetable given to developing and least developed country-members.

All these commitments of the Philippines continue to be reviewed and re-considered in the light of trade and investment developments inside and outside the region. At the Singapore Ministerial Meeting of the WTO, several issues were deliberated apart from the review of the Uruguay Round. These included whether to expand the mandate of WTO to include social clauses, competition policy, environment etc. Concerns for environmental respect in production and the lack of enforcement instruments have made trade the candidate means for carrying out environment rules. Yet as pointed out at the meeting, existing GATT articles (XX) allow measures to be imposed even if inconsistent as long as these are related to the conservation of exhaustible natural resources. Whether the imposition of environment-related standards (e.g., eco-labeling) constitutes direct conservation remains contentious. Failure of some countries to accede to labor-related "social clauses" (e.g., right to organize, abolition of forced labor) has also made WTO the candidate instrument to enforce labor standards that other organizations are unable to carry out. Although these and other emerging issues were not adopted by WTO as within its mandate of rules and disciplines, it seems obvious that it will continue to be a forum for supplementary rules whether remotely trade-related or not.

The very nature of APEC's regular meetings of trade ministers (and the associated senior officials meetings) has created the vehicle for concrete measures of liberalization and other related actions. The declaration of individual action plans by APEC member economies in support of the Bogor Declaration and the subsequent choice of 15 sectors in the EVSL is indicative of the dynamism of commitment. Although for many members, their individual action plans may have only been re-statements of their WTO declarations, for others there were clearly advances if not acceleration in recognition of the plus nature of the APEC processes[4]. Given the fact that APEC is not a negotiating body like the WTO, the agreement to concentrate early liberalization on 15 product groups (beginning initially in 9 and then expanding to 15) with a timetable towards zero tariffs (for many) is demonstrative of what to expect out of a consensus procedure. This is not necessarily replicable over a membership of more than a hundred contracting parties in the WTO but illustrative of what can be done and how.

[4] For the details of these Individual Action Plans (IAPs) and Collective Action Plans (CAPs), see APEC (1996) and for an evaluation see PECC, PIDS and Asia Foundation (1996).

The continuing efforts in ASEAN to whittle down the exclusion lists in the CEPT scheme, reduce the number of products in the sensitive and general exception list, and add to the inclusion lists makes member countries including the Philippines regularly commit to a sub-global arrangement. In addition there may be new initiatives during the course of Ministerial and Informal Summit meetings as in the case of the AIA, which is scheduled for initial agreement[5].

In other words, what all these global and sub-global agreements do, and that the Philippines commits itself to, is to explicitly recognize the greater interdependence among trading nations and to enhance their economic integration. This is the framework of the country's international trade commitments. What is important to remember is that these arrangements have been designed towards integration among trading sectors, services, and resources (including indeed labor resources). Thus the nature of the Philippines commitments is also integrative, recognizing the interdependence among sectors.

Table 1 gives a summary picture of the commitments, issues, and concerns of the Philippines in the global economic environment categorized as WTO, ASEAN, and APEC along the areas of tradable goods, services, and investment. The table indicates the scale of actions the country has been participating as well as acceding including the associated timetables based on the classification of the country (as in the WTO and APEC commitments). There are other multilateral initiatives which may not have emanated from any of these but which have implications for the country's commitments as in the case of the Multilateral Agreement on Investments (MAI) shown under the column on WTO (see Alburo, 1998 for details). The table also indicates what are in store for the country in terms of preparing for the next phases of these commitments (e.g., the next round of negotiations in agriculture, the review of TRIMS in 2000, negotiations in services, etc.). The comprehensive nature of the individual agreements (and the Philippines commitments to them) reflects the very essence of integration and the inter-relationship among sectors.

[5] At the ASEAN Economic Ministers Meeting in Manila in October 1998, an ASEAN Investment Agreement was signed.

Table 1
Issues and Concerns in the Global Economic Environment

	WTO	ASEAN	APEC
TRADE sectors	Tariff Bindings	0-5 percent tariff Rates by 2003 For CEPT goods	EVSL for 15
	Tariff Reduction by 2008		
	MFA Phase-Out by 2005	Reduction of items In Exclusion List	
	Conversion of all Agriculture NTM To tariffs	Tariff nomenclature Harmonization	
	Reduction of agriculture Tariffs by 24 percent By 2004		
SERVICES	Market Access through a Positive List	GATS-plus: seven Sectors	GATS Commitment
	Continued Negotiations in 3 Areas (financial, telecoms, movement of natural persons		
INVESTMENT	Elimination of TRIMS In 5 years and review By 2000	Completion of AIA	Non-Binding Investment Code
	Possible Investment Policy Accompanying TRIMS		
	Influence of MAI on WTO		

III. Integration Environment: Actual and Potential

The Philippines is inextricably connected with the rest of global commerce through several channels. The country is an active participant to the globalization phenomenon that now characterizes international transactions.

With trade liberalization, there are fewer restrictions for goods to move in and out of the country. As the Philippines pursues concomitant deregulation of industries and regulatory reforms, it eases the flow of essential raw materials for the manufacture of tradable goods. As the liberalization of services trade takes place, the necessary component to globalized goods trade is efficiently in place. While it may be true that labor's share in the production of globalized tradable goods has fallen, some of it has become integral to the raw materials as embodied capital. As capital markets are opened up, as capital is freer to move in and out of the country, the eventual location and direction of these resources are dictated by efficiency considerations. It is of course true that short-term funds may swamp markets, dictate asset prices on short-term time frames, and distort overall financial markets. But it is also true that these dictate the flows of long-term funds in the form of foreign direct investments. In turn these will have interactive effects on the flow of real goods and services.

Tradable Goods

Integration of tradable goods is examined in terms of Philippine trade in APEC and in ASEAN. Austria (1998) provides several evidence of this integration. The share of EVSL products to total Philippine trade (exports and imports) is significant even if it appears to be declining in 1997 relative to 1991. For example, the share of EVSL goods to total Philippine exports stood at 43 percent in 1991 while their share to total imports was 45.1 percent in 1991. Though the shares have gone down to 20 percent and 35.1 percent, respectively in 1997, they remain significant in absolute (dollar) terms. On the other hand, the share of APEC economies to total Philippine exports by EVSL products ranged from 40.7 percent (civil aircraft) to 93.7 percent (natural and synthetic rubber) all for 1997. What is even more telling is that the share of APEC to total Philippine imports of EVSL products has equally been significant ranging from 20.2 percent (civil aircraft) to 94.7 percent (toys) all for 1997 as well. This really means a substantial two-way trade (intra-industry) taking place between the Philippines and the APEC member economies.

For some products, the Philippine share of imports has significantly increased. For oil and oilseed products, Philippine share of US imports increased form 51.1 percent in 1991 to 65.9 percent in 1995, Canada from 39.3 percent to 71.2 percent, Malaysia from 64.3 percent to 91.4 percent, and Indonesia from 45.1 percent to 99.8 percent, among others.

Although there is no direct causal evidence given to link CEPT/AFTA to expanding Philippine trade with ASEAN, the evidence seems to show that the country has become increasingly integrated with ASEAN as well. Since 1994 after the CEPT program was started, ASEAN's share of Philippine exports rose from around 6 percent in 1993 to 13 percent by 1997, while ASEAN's share of imports has remained steady at 13 percent. This evidence of greater integration with ASEAN does not seem surprising considering the larger integration with APEC (to which the ASEAN-6 members belong).

Despite the fact that for some (EVSL) products, APEC's share fell in 1997, the program of liberalization in APEC and ASEAN suggests an expected expansion in trade. By 2000, for example, only three product groups under EVSL will have tariff rates in excess of 30 percent (fish and fish products, automotive, and food). In addition, given a unilateral tariff reduction towards 5 percent by 2004, these rates should come down as well. On the other hand, for ASEAN the CEPT rates for more than 5,000 tariff lines are expected to be in the 0-5 percent range by 2003. Although the 1998 temporary exclusion rate for the Philippines appears to be the highest among the original ASEAN members, the road to 2003 is expectedly more liberal.

The effects of greater integration in terms of tradable goods are also measurable through domestic impacts on manufacturing value added. While all EVSL products are only a fifth of GDP in 1993, individual products range in impact from 0.1 percent of manufacturing value added for toys to 44.7 percent of manufacturing value added for food. With increasing value added in each sector, and with the possible trade multiplier effects, integration becomes more enhanced. The wide diversity of EVSL products however effectively reduces the average annual real growth rate of these exports to 2.4 percent between 1991 and 1997.

Services Trade

Avila's (1998) report traces the magnitude and importance of services trade to overall Philippine trade. How integrated is the sector to the rest of the global services trade remains a question. For example, while the services sector is the largest sector in the domestic economy (44 percent of GDP in 1997 distributed according to 22 sub-sectors) there appears to be some concentration in the earnings from service exports in the form of personal income (remittances from overseas Filipino workers) even if these constitute some 35 percent of the country's total exports (in 1995).

There are however several reasons to suppose that services trade are likely to expand. First, the Philippines has made offers in specific sectors under its GATS commitments: transport services, tourism services, financial services, and communications services. The first three of these have been important components of the receipts and payments of the services trade in the country's Balance of Payments. Second, the Philippines is a signatory to the ASEAN Framework Agreement on Services (AFAS) trade where seven service sectors are to be given priority in ASEAN for liberalization. Business services and construction, which are part of the seven, are equally important in the service sector value added. Third, the country has added the energy sector and distribution services (retail trade) in its APEC commitments for liberalization apart from relaxing employment of foreign nationals in the tourism sector, foreign membership in board of directors in banks, investment and financing companies (Avila, 1998: 21). In other words, the country is providing a number of offers within the context of the various modes of supply as agreed upon in the GATS. This is consistent with the fact that "the country maintains the highest degree of market access and national treatment in its services sector" (Ibid. p. 23).

It appears that these declarations of standstill if not commitments in specific areas of services trade are where substantial restrictions are also prevalent. To the extent that the Philippines will move towards easing the impediments to their foreign expansion, they make for an important posture to the next round of services trade negotiations in 2000. The high tariff equivalence among the services sectors the country has identified for liberalization also provide some room for negotiations in the next round (e.g., the tariff equivalent in construction is 40 percent, 200 percent in air transport, 200 percent in basic telecommunications, 200 percent in life insurance, an d 35 percent in business services).

How much integration can be expected from the country's agreement to the GATS schedules, its individual action plan under APEC, and its agreement to the ASEAN services framework depends on the its broader acquisition of comparative advantage in services sectors. This means moving beyond the low-skills category and professional services into upper-level and skilled workers. And here GATS primarily focuses on freeing the movement of upper-level and skilled workers. But as pointed out in the Avila (1998) report, the GATS commitments of other countries do provide some windows. For instance, there are relatively low barriers in areas such as construction, wholesale and retail trade, hotel and restaurant, recreational and cultural services even in the US, computer services in the US, EU, and Japan, and construction services in Indonesia, Malaysia, and Singapore. There would be apparent reciprocal benefits with the opening up of these service sectors not only in the Philippines but in the other trading partners as well. In essence then one can only expect that there will likewise be some "intra-industry" trade even among similar services sectors within the framework of the GATS negotiations. And the Philippines appears to be in a position to give concessions that appear to be generous even if, as stated in the report, its GATS commitments are actually below existing regulatory regimes. When that time comes the country will recognize the integration value of a liberalized services sector.

Foreign Investments

It is shown in Alburo (1998) that FDI into the Philippines, whether by BOI approvals or actual BSP recorded inflows have seen diverse sources and locations within the country. In particular, aside from the traditional FDI sources like Australia, Europe, Japan, and the U.S., other non-traditional sources have emerged since the mid-nineties such as Hong Kong, Singapore, and Taiwan in Asia. On the other hand there has also been some shifts in the location of FDI away from the traditional manufacturing sectors and into commerce, banks/financial institutions, and construction. In part this has been a response to the changes in the relative signals that FDI are sensitive to such as real exchange rates and interest rates[6]. Indeed the shifts in location reflect the regional characteristics of capital flows.

The interesting aspect of the foreign investment behavior in the Philippines is its consistency whether it is based on approvals by BOI or registered with the BSP. This means that it is invariant of incentives provided by the government and that the latter has not changed the relative profitability of sectors that derives from structural parameters. In short, the degree of global integration engendered by FDI has changed irrespective of attempts to alter directions through incentives.

As pointed out in Alburo (1998: 5), FDI has in recent years moved into non-tradable sectors. What this means is that some break has taken place in the trade links between the country and the rest of the world through investments. Given the fact, as noted above, that there remain substantial restrictions to the services and related sectors of the economy then FDI into them effectively diminishes the integration of the economy and FDI has become a "tariff-jumping" vehicle. Indeed the flows of foreign investments into non-tradable services sectors skirt the protection accorded by the trade policy regime and FDI behaves the same way foreign investments in the past moved across countries. This is a retreat from the way FDI has behaved in the global economy as a complement to the liberalization of trade regimes and globalization taking place and thus the reduction of integration links with the rest of the world.

[6] The redirection of FDI into non-tradables is in fact one manifestation of the evolution of the Asian financial crisis. Alburo (1998).

Trade and Investment Nexus

The integration of the global economy can be found in the links between trade and foreign direct investment. With the reduction in trade restrictions and overall liberalization, what has happened is that production processes have been parceled out into stages and undertaken in different countries according to inherent comparative advantages. These "component production" stages are then linked together through freer movement of the goods. Final assembly therefore takes place among the linked areas for eventual shipment to end customers. In order to support this globalized production behavior FDI flows so that the links are strengthened.

Nowhere is this more apparent than in the transformation of the Japanese trade behavior as summarized in Alburo (1998: 14-15). Two stages seem to describe Japan's case. In the initial period (1986-1990), the outward movement of Japan's industrial adjustment (through FDI) remained home-centered wherein components and parts were brought back to Japan for processing and eventual global distribution. In the subsequent stage (since 1991) a new phase of "localization" has taken place where overseas production is an integral part of Japan's globalized industry. There is little distinction between global- and home-focused production and that overseas production may be the new backbone of Japanese industry.

This nexus is provided some evidence by Figure 1. This figure relates exports between 1991 and 1997 and FDI flows registered with BSP during the same period. The close relationship between the two flows is quite apparent from the figure though some sharp fluctuations are seen in FDI. Yet the trend in the positive relationship is quite clear. This association does not imply that the direction of causation is clear since that has to be established separately. In another study (James, 1998), it has been shown that there has been a dramatic shift in the composition of Japanese imports from the Philippines. From a predominantly commodity composition in SITC 0 and 2 between 1987 and 1991 (76 percent) the 1996 composition has changed to SITC 7 (52 percent) and SITC 8 (11 percent) where SITC 7 includes computers, office machinery parts, cathode valves and tubes, equipment for power distribution, radios and televisions. SITC 8 in turn includes photographic apparatus, articles of apparel, furniture, and miscellaneous manufactures. The top two or three import items have of course remained i.e., fruit and nuts, base metal ores, and shrimp, fresh and frozen. But what can be observed is that while these products have managed to retain their importance there has been a sharp decline in their growth rates between 1987-1991 and 1991-1996. All this is consistent with the argument about the close links between trade and FDI.

This association between trade and investment is not unique to the Philippine experience. Similar results especially with respect to the Japanese trade behavior are evident for Malaysia and Thailand and slightly for Indonesia (Ibid.). The long and short of this is that there is now a strong foundation for an integration environment which meshes countries closer through liberalized trade regimes and the flows of investments. This is clear in terms of tradable goods and FDI but the services sector still remains detached from the rest of the world.

In summary, in a global setting fostered by multilateralism and the various instruments and agreements adhered to by trading nations, the potential for integration is quite high. For the Philippines its commitments

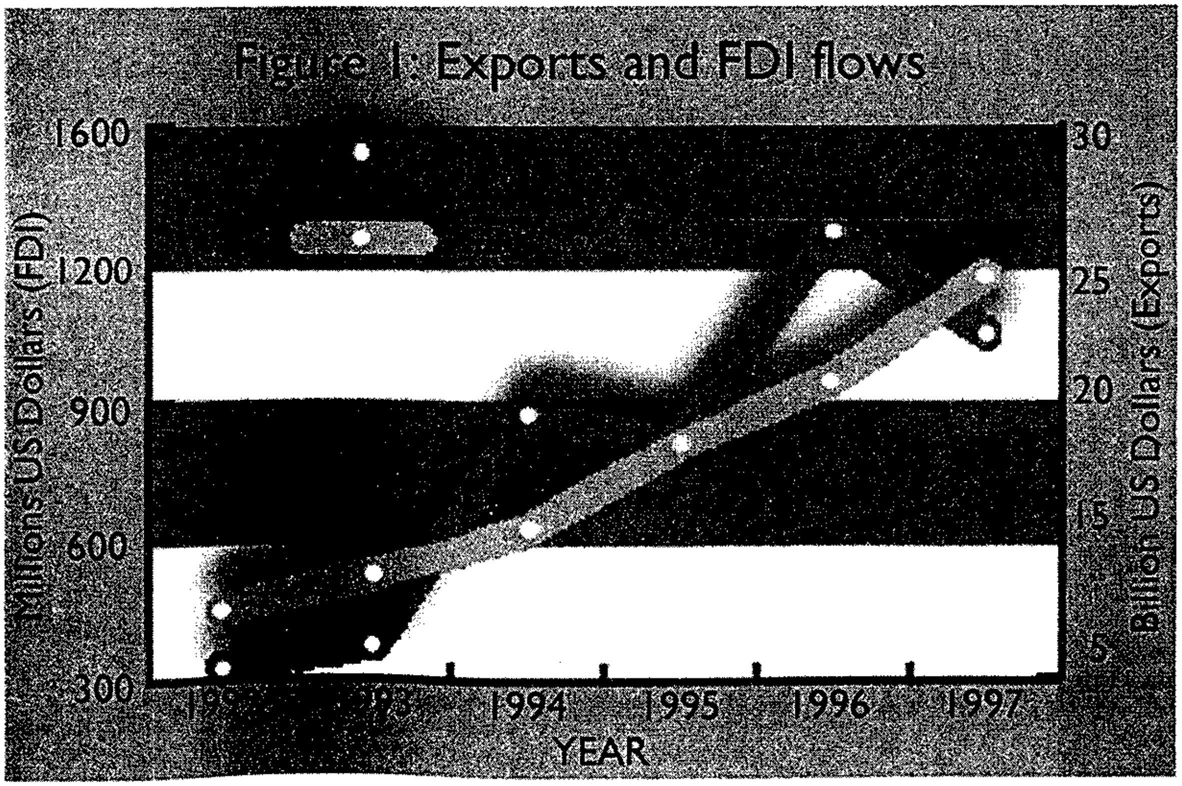

Figure 1: Exports and FDI flows

to the WTO and other sub-global arrangements appear to enhance its integration with the rest of the world in terms of tradable goods and foreign direct investments. Despite some reduction in transactions with the APEC economies in recent times, these have not diminished the interdependence of the country with the rest of the world. A similar observation can be made for FDI, which despite recent shifts in the location of investments retain its close association with trade flows illustrated by Japan's transformation. In the case of services sector however the degree of actual integration appears to be low if not weak and beset by impediments. However the country's active participation in GATS and services initiatives in APEC and ASEAN promise to hold a potential for greater integration with the global economy as the services sector is liberalized consistent with the pattern of the strength of services trade component of the Balance of Payments.

IV. Policy Adjustment and Options in the Light of the Asian Crisis

Instead of laying out what may be the implied alternative adjustment paths to the global economic environment described in I. above, this section begins with the usual responses that the policy regime has taken vis-a-vis these global arrangements. Firstly, a policy tack often used is conditional liberalization e.g., a reduction in tariffs for specific products subject to the condition that a trading partner reciprocates with a tariff reduction on products of interest to us. This is the opposite of unilateral liberalization. Conditional liberalization creates a two-fold problem: (1) tariff reductions and other trade concessions are on a MFN-basis as a WTO contracting party commitment. We can not impose discriminatory tariffs on the basis of countries; and (2) the Philippines is a small country which has no inherent economic power to impose reciprocal conditions for its liberalization - even in products the country may be a dominant supplier. Secondly, it is always tempting to respond to a specific problem by reversing a previous policy, slowing down a policy track, or freezing a policy implementation. In all cases the aim is to address an issue. Yet these attractive choices are fraught with undesirable side effects. For one, they give wrong signals to traders that the policy regime is weak, unstable and inconsistent. For another, they ignore the close interdependence among various products, which are inputs/outputs along the production line. Thus a temporary tariff increase would have repercussions beyond the concerned sector. Thirdly, while it is useful to concentrate on a concerted policy direction, if its broader interactive effects with the other sectors of the economy are not systematically considered, its impact would be weak and the policy may end up being counterproductive[7]. All sectoral and intersectoral effects have to be viewed in concert. Some synchronization of policies is essential to be effective.

The recent Asian financial and currency crisis has confronted policy makers with difficult choices. The length and depth of this crisis has been unanticipated. The prolonged recession in Japan has all the more doused the prospects of early recovery with its weak economic leadership in the region. The Philippines, in many ways removed directly from the devastating path of the crisis, still has to face up to the

[7] We are ignoring here the possible problems of bureaucratic timing i.e. by the time an analysis of the problem is completed and action taken the environment may have already eliminated the need for the action.

fact that its own recovery and resumption of sustained growth hinge on the region's conditions. The country itself is expected to see sluggish growth rates in the next 2-3 years. Given the inherent economic problems in the country there is an expectation of increasing unemployment, reduced capital flows, reduced trade, and worsening poverty before a turnaround takes place. Within these, what seems appealing is to look inward for sources of recovery, forestall further outward commitments, and even reverse policies that have been implemented.

The various global and sub-global arrangements that have emerged have a common thread - the recognition of integration and greater interdependence among and within sectors within and across borders. The studies reported here on tradable goods (Austria, 1998), services trade (Avila, 1998), and investments (Alburo, 1998) point to an analogous common thread - integration and greater interdependence. What these mean is that the adjustment path and policy options have to be fashioned in the larger context of global integration and interdependence.

The Asian crisis and recent economic conditions have to be seen as a short-run disturbance rather than part of a long-term scenario. The structural factors of the world economy have already been shaped. Our commitments have been drawn up. Our vision has been articulated many times over. In the light of these, what adjustment path should be considered by the country? What options are there for policy and for what purpose?

Each of the individual reports identifies options that the policy maker and the private sector can consider. They need not be repeated here. However an integrated approach to options is useful to summarize here. First, the imposition of restrictions to trade is neither useful nor necessary. If the crisis is temporary and expected to bottom out (see Alburo, 1998 for description), restrictions no matter how temporary only confuse traders, investors and the rest of the world since both delays and bureaucratic changes take time. Besides the crisis has already happened with its damage done. In fact reversing the processes of outward commitments only invite damage the other way i.e., the structural changes that have occurred in response to the outward-oriented policy commitments. The sharp currency depreciation occasioned by the crisis gives a natural protection to the domestic industries that would otherwise be provided by policy, making further restrictions unnecessary. Even "across-the-board" surcharges only further penalize the more efficient sectors of the economy. In short, the adjustment path is one of maintaining the country's outward orientation.

This does not mean however that there are no specific options policy can take. These are in the realm of unilateral policies and collective actions. On the former, a more synchronized liberalization pace has to be ironed out and completed. This synchronization offers an option to slow down industry's pace which may send mixed signals. In addition the separate reports suggest infrastructure development, support for R and D, wider information networks, and promotions and marketing both of country and industries. In other words, the main thrust of the unilateral policy options is to enhance a less hostile environment for domestic and international trade. In fact, whether for domestic or global commerce the policy agenda is clearly to foster a friendly environment for integrated trade and commerce.

The country has several policy options to take in terms of collective actions. These are in the form of our response to global arrangements ranging from the issues that are likely to appear in the agricultural negotiations to proposals for multilateral rules and disciplines on investment. On the other hand our support to sub-global arrangements also define options ranging from participation in various EVSLs to programs of trade and investment facilitation embodied in our individual action plans for APEC; and changes in the CEPT schedules, services liberalization and investment code harmonization for ASEAN. These collective options are framed in the context of the larger global economic community to which the Philippines belong and may be shaped by other considerations (e.g., Cairns Group). It would make sense to continue these commitments and draw from the global environment the appropriate policies that would allow greater convergence between domestic and border prices not only in tradable goods but in services sectors as well. Such a convergence ultimately reflects the kind of integration that the country subscribes by adhering to global arrangements.

V. Conclusion

The three reports briefly summarized in this paper have examined the behavior of tradable goods, services sector, and foreign investments in the context of the Philippines' commitments to global and sub-global agreements. The comprehensive nature of the WTO Uruguay Round Agreement indicates that its new components and the strengthened existing ones have been woven together in recognition of their closer integration as globalization unfolded in the nineties and proceeding into the millenium. The initiatives in APEC and ASEAN to promote greater trade in the region are consistent with this larger global frame. In this new economic environment it is not sufficient to isolate activities and see them as disjointed. Similarly the behavior of goods, services, and foreign investment in the Philippines partly validates the new economic environment.

Although trade in the services sector has yet to expand and diversify in scope along the global arrangements, its potential in the new environment appears to be promising. In both tradable goods and investments, there appears to be evidence of greater integration of the Philippines with the rest of the world trading system and with the specific members of APEC and ASEAN. There is also a strong evidence of the interactive relationship between trade and investment that confirms some of the structural transformation of the global economy in support of the nexus.

Consequently, despite the glitch of the Asian crisis, the policy direction in trade seems pretty clear and that is to maintain the course of continued integration of the country's economic environment with the rest of the world through adherence to commitments in the WTO and the sub-global arrangements in APEC and ASEAN. What is important is to insure that there is policy synchronization among the various sectors of the economy, the necessary infrastructure is provided and the overall direction is unmistakable. By creating and nurturing a less hostile environment for trade and investment in goods and services the Philippines is bound to be able to capture greater gains from active participation in the international market and commerce that involves the links among the private sectors in a globalized economy.

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24